HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Peterborough CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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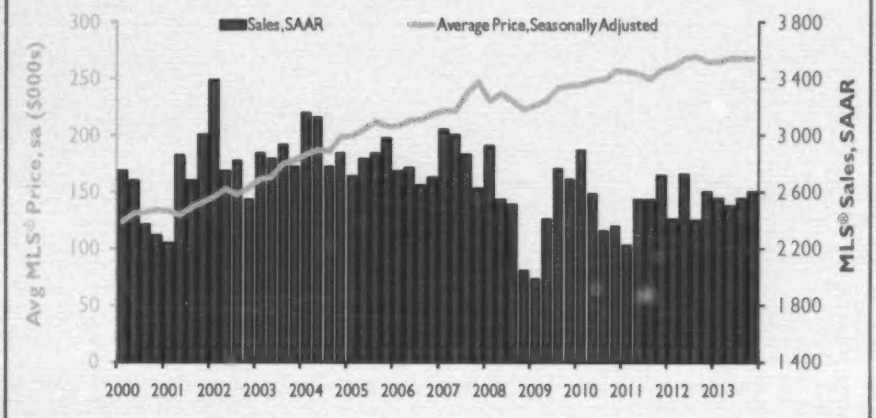
Market at a Glance

- Existing home sales will begin to slow in the latter part of 2012, but begin to gain momentum in the second half of 2013 as employment conditions improve.
- Resale prices will remain relatively flat through 2013 as the market continues to be balanced.
- New home construction will decrease in 2012 and remain at the same level in 2013 due to slow population growth and sufficient supply in the resale market.

Figure 1

Resale Market to Gain Momentum in Late 2013



Source: CMHC forecasts, CREA

[1] The forecasts included in this document are based on information available as of October 17, 2012.

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Resale Market

Sales and prices steady through 2013

Sales in 2012 will finish higher than in 2011 despite a slower second half. Strong sales during the first two quarters of 2012 were partly due to some buyers purchasing earlier than planned due to the anticipation of less conducive mortgage conditions. Also, employment started to recover in mid 2011. Typically there is a six to nine month lag between changes in employment and sales activity. Both the pulled-forward housing demand and effects of greater employment will dissipate in the second half of 2012.

Employment reached a high point in May 2012 and has come back down to historical norms since then. With little to any growth in employment expected for the remainder of 2012, fewer potential buyers will be encouraged to purchase a home in Peterborough. A declining vacancy rate shows renters are delaying plans for homeownership, likely due to market uncertainty. There will also be fewer first time buyers, given the out-migration of people aged 25-44 due to better employment prospects, including higher wages, in other areas of Ontario and Western Canada. Repeat buyers will dominate the resale market, as they continue to take advantage of low mortgage rates and larger down payments to move into a more expensive home. Move-up buyers will not have to turn to the new home market to find a suitable single-detached home as there will be adequate selection in the resale market.

With employment growing at a faster rate beginning in the second quarter of 2013 the resale market will start to gain momentum in the latter part of the year. Overall, sales in 2013 will be down only slightly from 2012. A strengthening US economy will positively affect the goods-producing sector in Peterborough, which has been trending down in the past 12 months. Some renters who took a wait and see approach due to economic uncertainty will take the leap to homeownership. Stable home prices and mortgage rates inspire more confidence in the direction of the market.

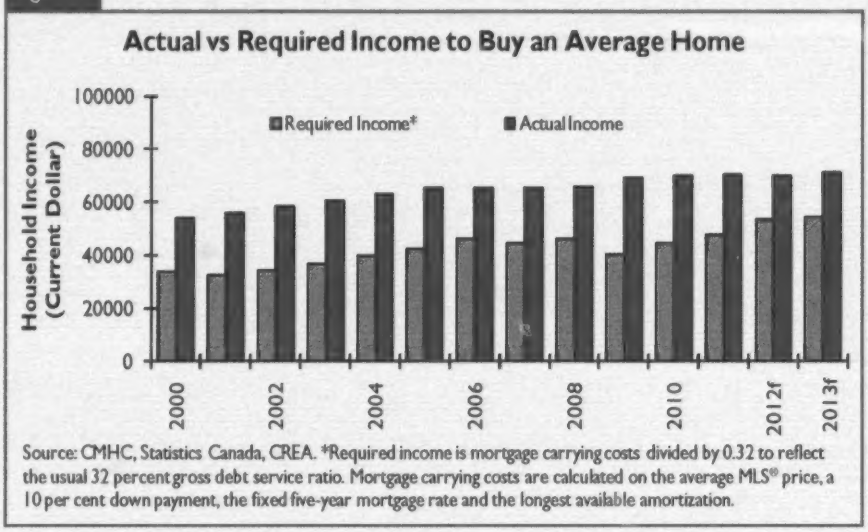
Housing still within grasp for average income earner

Resale prices will remain stable as balanced market conditions persist in Peterborough. Sales will move closely with listings with repeat buying making up the bulk of home buying activity. Moderate price appreciation in line with inflation will limit growth of home equity, constraining the newer homeowners' ability to trade up. Consequently, more of them will decide to stay in their current homes.

A roughly proportionate moderation in sales and listings in 2013 will be the net result. The first time buyer would typically make up a greater share of the market when price growth slows. However, the moderating effect of changes in mortgage lending regulations will offset any of those gains. First time buyers generally are more sensitive to a rise in carrying costs. In the longer term, the changes will add stability to the mortgage and housing markets.

The gap between the average required income to own a home and the average actual income in Peterborough narrowed in 2012, as a result of flat wages and a lower maximum amortization period of 25 years. However, in 2013, the relative affordability of homes will not change as modest increases in both incomes and prices will offset each other. The average household in the Peterborough CMA is comfortably able to service a mortgage for the average resale home.

Figure 2



Source: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

New Home Market

Distribution of starts to change in 2012 and 2013

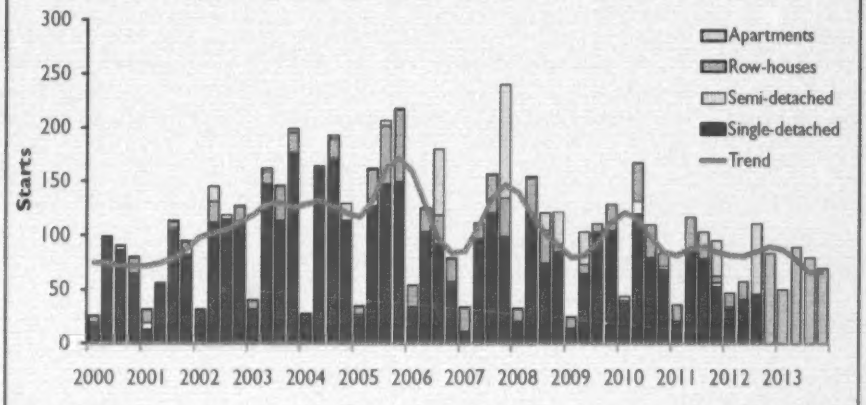
New home starts are currently pointing to a slower year than 2011 and will remain at a similar level through 2013. As a result, expect housing starts to keep following their downward trend and remain at a low level historically for Peterborough. Population growth is a key factor determining the change in housing starts from one year to the next. As employment will remain relatively flat from 2012 to 2013, growth in the population will remain modest and not as supportive for new construction demand.

Single-detached starts are responsible for the slower pace of starts in the first two quarters of 2012 as compared to the same period a year prior. While single-detached construction will continue to account for the majority of starts in the CMA, we expect singles starts to decrease in 2012 and remain at the same level in 2013. The lower supply of new singled-detached homes will show that buyers will have had sufficient options available in the resale market. The moderate pace of demand for new single-detached homes will ease pressure on prices.

Consistent with the demographic and socioeconomic trends in Peterborough CMA, apartment starts will gain in share of total starts this year and next. With an aging population and the smallest average household sizes of any CMA in Ontario there is less demand for new single-detached homes, which are typically marketed to growing young families. Apartment dwellings require less maintenance and are more attractive to seniors or empty nesters wishing to downsize, as well to first time buyers who have to deal with little wage growth and higher mortgage carrying costs.

Figure 3

Housing Starts to Remain Low Through 2013



Source: CMHC

Local Economy

Employment growth to pick up in second half of 2013

After a positive first two quarters of 2012, employment growth will begin to slow by the end of this year and into the start of 2013. Although yearly employment from 2012 to 2013 will remain relatively flat, there will be growth during the second half of 2013 that will continue to support demand for housing. The unemployment rate will drop slightly in 2013 as the labour force gives back some of the growth experienced over the past two years. The labour force will remain at a level not reached since the recovery began, evidence that people who were previously discouraged have more confidence in their job prospects.

Through 2012 and 2013, efforts at all levels of government to limit budgetary increases will constrain growth for the foreseeable future in the public sector. A smaller budget for the Ministry of Natural Resources will predominantly affect regional centres and less impact the head office located in Peterborough. There will be jobs created in the construction sector from the $29.3 million provincially-funded 87,000 square-foot Kawartha Trades and Technology Institute at Fleming College. Overall, the private sector will drive any future employment growth in Peterborough. Gains in service sector jobs had been mostly responsible for the recovery in employment over the past two years. Cautious consumer spending and historically low levels of consumer sentiment will temper further gains in the service sector. The goods-producing sector has lagged behind during that period. However, positive economic news out of the US could lead to capital investment into the manufacturing sector.

Mortgage Rate Outlook

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Forecast Summary Peterborough CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	2,458	2,537	2,507	2,590	3.3	2,550	-1.5
MLS® New Listings	4,578	5,032	5,043	5,000	-0.9	4,900	-2.0
MLS® Average Price ($)	236,638	249,763	254,605	266,000	4.5	268,000	0.8
New Home Market							
Starts:							
Single-Detached	286	306	239	170	-28.9	170	0.0
Multiples	85	98	112	115	2.7	100	-13.0
Semi-Detached	0	16	6	10	66.7	10	0.0
Row/Townhouse	55	78	58	40	-31.0	40	0.0
Apartments	30	4	48	65	35.4	50	-23.1
Starts - Total	371	404	351	285	-18.8	270	-5.3
Average Price ($):							
Single-Detached	348,765	313,278	330,749	325,000	-1.7	322,500	-0.8
New Housing Price Index (% chg. Ontario)	0.1	2.4	3.6	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	6.0	4.1	3.5	3.0	-	2.5	-
Two-bedroom Average Rent (October) ($)	875	890	899	910	-	930	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	59,200	57,200	57,700	61,500	6.6	60,000	-2.4
Employment Growth (%)	-6.3	-3.4	0.9	4.0	-	-2.0	-
Unemployment rate (%)	7.5	9.7	9.4	7.5	-	7.3	-
Net Migration	331	964	962	375	-61.0	400	6.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = apartments 3+

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